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C O N F I D E N T I A L AMMAN 004582

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PLEASE PASS USTR/A/USTR NOVELLI
FROM AMBASSADOR GNEHM TO A/USTR NOVELLI

E.O. 12958: DECL: 06/06/2014

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SUBJECT: REMOVING HURDLES TO DEEPER U.S.-JORDAN ECONOMIC
RELATIONS

Classified By: Ambassador Edward Gnehm, Jr., Reasons 1.5 (b) and (d).

1. (C) SUMMARY: U.S.-Jordanian economic and trade relations have boomed over the past five years of economic reforms launched by King Abdullah. The U.S. has become Jordan's No. 1 trade partner and Jordan's economy is strengthening on a number of fronts. However, there remains room for improvement with issues like Jordan's pre-shipment inspection program and a lack of transparency in government procurement proving to be impediments to trade, particularly to increasing the level of U.S. exports to Jordan. The U.S. should lever Jordan's interests in the Joint Committee in a way that meets our concerns. Both sides must work together to ensure that Jordan continues to deserve its role as a model for economic reform in the region. END SUMMARY.

2. (C) The U.S.-Jordanian economic relationship is flourishing and gives every indication of continuing to expand. From a nearly insignificant trade relationship five years ago, the U.S. has now become Jordan's largest trade partner, with bilateral trade reaching \$1 billion in 2003. Soon after he became King, Abdullah launched a series of economic reforms: the U.S.-Jordan FTA, Jordan's accession to the WTO, the EU Association Agreement and privatization of state enterprises. These have now begun to bear fruit. Trade continues to surge and Jordan's exports to the U.S. alone may exceed \$1 billion in 2004 if current trends continue. The government continues to make progress in increasing its protections of intellectual property. The government's fiscal situation is improving rapidly with the debt/GDP ratio falling to 89.7%, down from a high of 111% as recently as 1999. Partly as a result, Jordan graduates from its IMF program in July. In short, despite the economic turbulence caused by events in neighboring Iraq, Jordan's economy and U.S.-Jordan economic relations are strong.

3. (C) Yet, there are still areas for improvement we must strive for in our economic relationship. While Jordan's exports to the U.S. have surged, U.S. exports to Jordan have not followed suit. After a high of \$440 million in U.S. exports to Jordan in 2000, 2003 registered a more modest \$350 million. We want our exports to Jordan to grow strongly as their exports to the U.S. have grown. Although the small size of Jordan's market and Jordan's distance from the U.S. play a role, there are impediments which we must use the Joint Committee meeting to remove. The first is DAMAN, Jordan's pre-shipment inspection program. DAMAN, implemented last fall, has already diverted trade. In one case that we know of, a U.S. company decided to forgo a modest export of refrigerators rather than go through the hassles created by DAMAN. We cannot know how many other potential exporters have made similar decisions. The program also raises costs for our exporters and the fact that more than half of the standards used under DAMAN derive from the EU is another hurdle our exporters must leap. We must make very clear to the Jordanian side that DAMAN is a major obstacle to trade expansion now and threatens to become an even greater one in the future. It remains our top trade concern and the most serious obstacle U.S. exporters face in selling to Jordan.

4. (C) We also remain concerned about transparency in government tendering on large projects. Jordan needs to be reminded that membership in an organization like the WTO and accession to an FTA with the U.S. bring both rewards and responsibilities. Jordan's government tendering rules are comparable to those in more developed countries; the problems arise when the rules are not followed to the letter. These concerns should be raised during the negotiations with Jordan on its Government Procurement Agreement.

5. (C) COMMENT: The Jordanian side will come to the table seeking our support in several areas. We will be asked to consider accelerated FTA tariff phase-outs and to re-consider the proposed Egyptian-Israeli Qualifying Industrial Zones (at least by Jordan's private sector). We should explicitly link progress in areas that Jordan cares about with those that we care about: DAMAN and transparency in government procurement. Both sides want our economic and trade relationships to continue to flourish. By addressing our concerns about DAMAN

and transparency, Jordan can further strengthen its important economic ties to the U.S. It can also continue to be a model of economic reform for other Middle Eastern countries.

GNEHM^{*}